

Solution to Hammad Limited wala Question

Valuation of stock on the basis of lower of cost and NRV, using FIFO method

Item	Cost	NRV	Lower
Alpha	98,880	135,000	98,880
Gamma	4,267,125	4,520,000	4,267,125
Beta	605,574	444,000	444,000
			<u>4,810,005</u>

Product Alpha

Cost

	Qty.	Cost/unit	Value
Opening stock	20	3,000	60,000
Purchases	360	3,296	(W-1) 1,186,560
Closing stock (Based on FIFO)	(W-3) 30	3,296	<u>98,880</u>

NRV

Estimated selling price	(30 x 5,200)	156,000
Less: Estimated cost to sell	(30 x 700)	<u>(21,000)</u>
		<u>135,000</u>

Product Gamma

Cost

	Qty.	Cost/unit	Value
Opening stock	100	48,000	4,800,000
Purchases	50	56,542.5	(W-1) 2,827,125
Closing stock (Based on FIFO)	(W-3) 80	48,000	1,440,000
	50	56,542.5	<u>2,827,125</u>
			<u>4,267,125</u>

NRV

Estimated selling price	(80 x 58,000)	4,640,000
Less: Estimated cost to sell	(80 x 1,500)	<u>(120,000)</u>
		<u>4,520,000</u>

Product Beta**Cost**

	Qty.	Cost/unit	Value
Opening stock	30	4,000	120,000
Purchases	490	5,046.45	(W-1) 2,472,760
Closing stock (Based on FIFO)	(W-3) 120	5,046.45	605,574

NRV

Estimated selling price	(120 x 4,100)	492,000
Less: Estimated cost to sell	(120 x 400)	(48,000)
		<u>444,000</u>

Note: Selling price per unit is calculated using sales value and sales quantity.

(W-1) Total cost**Products**

	Alpha	Gamma	Beta
Quantity Purchased	360	50	490

Cost

Invoice value	(A)	920,000	2,375,000	1,820,000
L/C opening	(A x 0.5%)	4,600	11,875	9,100
Non-Refundable duties	(A x 23% x 60%)	126,960	327,750	251,160
Transportation	(W-2)	27,000	37,500	49,500
Cost of repacking (300 x 360) : (1,500 x 50) : (700 x 490)		108,000	75,000	343,000
Total cost		<u>1,186,560</u>	<u>2,827,125</u>	<u>2,472,760</u>

(W-2) Cost of transportation

		Alpha	Gamma	Beta	
Units purchased	A	360	50	490	
Maximum capacity per trip	B	20	2	15	
No. of trips	C = A/B	18	25	33	(rounded)
Cost of transportation	D = C x 1,500	27,000	37,500	49,500	

(W-3) Calculation for number of units of closing stock

	Alpha	Gamma	Beta
Opening stock	20	100	30
Purchases	360	50	490
Less: Sales	(350)	(70)	(400)
	<u>30</u>	<u>80</u>	<u>120</u>